

competition. Import tariffs also generate tax revenues for the governments who impose them.

### Quotas

Quotas are physical limits on the *amount* of goods that can be imported into a country. Tariffs restrict trade by directly increasing prices. Unlike tariffs, quotas increase prices by directly restricting trade. For domestic producers, quotas are a much surer means of protection. For consumers, quotas mean limited choices and higher prices.

### Qualitative Trade Restrictions

Qualitative trade restrictions are non-tariff barriers. They are not taxes on goods. Instead, they include a wide range of charges, requirements, and restrictions. Examples are surcharges at border crossings, licensing regulations, or packaging and labeling regulations. Other restrictions might be size and weight requirements. Not

all of these barriers are discriminatory and protectionist. Those that deal with public health and safety are legitimate. However, the line between social well-being and protection is a fine one.

### World Trade Organization

The harmful effects of protectionism were felt most during the Great Depression in the 1930s. As a result, 23 nations formed the General Agreement of Tariffs and Trade (**GATT**) in 1948. GATT worked to liberalize and promote nondiscriminatory international trade between its members. In 1995, the World Trade Organization (**WTO**) replaced GATT. The WTO continues to pursue reductions in tariffs on manufactured goods today. It also continues to seek liberalization of trade in agriculture and services. In 2000, the WTO had 135 member countries. Thirty more countries wanted to join. The WTO is considered the global watchdog for free trade.

### Key Concept Words

**free trade** – (n.) unrestricted exchange of products/services

**GATT** – (n.) General Agreement of Tariffs and Trade

**market share** – (n.) a company's share as a percent of the sales for the total industry

**protectionism** – (n.) restricting imports in order to help domestic producers

**qualitative trade restriction** – (n.) charge, requirement, or restriction on imports

**quotas** – (n.) limits on the amount of goods or products that can be imported

**tariffs** – (n.) taxes on goods or products which are imported, exported, or cross through a country

**WTO** – (n.) World Trade Organization

### Glossed Words

**barrier** – (n.) obstacle to prevent success; **beneficiaries** – (n.) those who benefit from something; **deteriorating** – (adj.) becoming worse; **harm** – (v.) to hurt or damage;

**legitimate** – (adj.) based on common sense; lawful; **noticeable** – (adj.) easy to see or observe; **pursue** – (v.) to try to accomplish; **surcharge** – (n.) an extra charge; **the line...is**

**a fine one** – (idiom) the difference between two things is difficult to see; **watchdog** – (n.) a person or group that guards against bad or illegal practices

- C. Now, read the passage to see if your prediction is correct. Try to read as quickly as you can. Do not stop to look up words in your dictionary.

## Reading 1

### Protectionism and Trade Restrictions

**Free trade** is like all competitive or technological changes. It creates and destroys. It gives and it takes away. Free trade lowers the price of the imported goods (products) by increasing competition. It also raises the demand for efficiently produced domestic goods. In the export industries, sales will increase, profits will rise, and stock prices will climb. It is clear that two groups will benefit from these new conditions. The consumers of the imported goods will benefit, as will the producers of the exported goods.

However, it is clear that there are groups that are harmed as well. One of the most visible groups is the domestic producers.

They must compete with the producers of the imported goods. The domestic producers are harmed in various ways. They experience noticeable declines in **market share**, falling profits, and deteriorating stock prices.

#### Benefits vs. Losses

It is a fact of life that there are both beneficiaries and victims of free trade. There are beneficiaries and victims when almost any change is made. The true

test, however, is not to determine if victims exist. The true test is whether the benefits of change outweigh the inevitable losses. The same is true for the issue of **protectionism**. Do the benefits of protectionism outweigh the losses?

#### World Trade Organization Facts

- founded January 1, 1995
- headquarters in Geneva, Switzerland
- 148 members (in 2005)
- administers WTO trade agreements
- monitors national trade policies
- provides technical assistance and training for developing countries
- handles trade disputes

Herein lies the major reason for protectionist legislation. The victims of free trade are highly visible. Their losses are quantifiable. The governments use protectionism to lessen or reduce the harm done to this easily identified group. Protectionist legislation tends to take one of three forms. It may be in the form of **tariffs**, **quotas**, or **qualitative trade restrictions**.

#### Tariffs

Tariffs are taxes on goods which move across an economic or political boundary. They can be imposed on imports and exports. They can also be imposed on goods in transit. In other words, goods are taxed as they move through a country on their way to some other destination. The most common type of tariff is the import tariff.

Import tariffs usually raise the price of imported goods. This protects domestic industries from foreign

WTO Members by Continent in 2005

